

CONTRACTUAL INCENTIVES PANEL

DOD PROCUREMENT CONFERENCE

**“The Transformation of Defense Procurement
People, Policy, Processes”**



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THE PROBLEM – NAVY PERSPECTIVE

- **Cost increases and schedule delays**
- **Major disruption to Navy budget and program execution**
- **Potential loss of credibility with Congress and the public**



THE PROBLEM – INDUSTRY PERSPECTIVE

- **Cost and schedule instability**
- **Little to no profit during system development**
- **Weakened Industrial Base**
- **Reduction in future subcontract competition**



PRIMARY CAUSES

- **Overly optimistic budget estimates**
- **Program churn**
 - Requirements
 - Funding
- **Unforeseen technical challenges**
- **Undisciplined contract/program management**
- **Competitive under pricing (“Buy In”)**
 - Contract funded to proposed price
- **All of the above**



NAVY PRELIMINARY SOLUTION

➤ Aggressive Profit and Incentive Arrangements

- 50/50 Sharelines or greater
- Increased use of performance incentives
- Mix of objective and subjective criteria in Award Fee determinations
- Maximize use of deterministic evaluation criteria



RANGE OF OTHER POTENTIAL SOLUTIONS

- **Truly independent cost estimates**
 - “Budget to CAIG estimate”
- **Increase importance of cost realism in source selections**
- **Evolutionary acquisition and spiral development**
- **Enhanced risk management (fund risk reserves)**
- **Other Tools**
 - Multi-year contracts
 - Award term options
 - Buy-to-budget
 - Incremental funding in procurement accounts
- **Divest lower priority programs to free TOA**